

# PacMOS

The logo for PacMOS features the word "PacMOS" in a serif font. The letters "Pac" are blue, "M" is red, and "OS" is blue. The letter "O" is a red circle. Several red dots of varying sizes are scattered around the letters, particularly concentrated around the "M" and "O".

PACMOS TECHNOLOGIES  
HOLDINGS LIMITED

INTERIM REPORT 2004

The directors are pleased to present the interim report and unaudited condensed accounts of PacMOS Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30th June 2004.

## RESULTS

For the six months ended 30th June 2004, the Group achieved a turnover of approximately HK\$76.7 million as compared to approximately HK\$48.2 million for the same period last year. The Group recorded a net loss of approximately HK\$66.7 million for the period under review, as compared to a net loss of approximately HK\$36.5 million for the corresponding period last year.

## DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Design, distribution and trading of integrated circuit products and provision of related agency services*

For the six months ended 30th June 2004, this segment achieved a turnover of approximately HK\$74.8 million, an increase of approximately 63% as compared to that of the same period last year. The growth reflected the strong recovery of the semi-conductor industry started from the third quarter of last year. Attributed to the improved market demand, the profit from operations of this segment was approximately HK\$16.1 million, a robust growth as compared to a profit of approximately HK\$1.8 million for the corresponding period last year.

#### *Investment Property Holding*

In regard to the investment property held by the Group in Hong Kong, the profit from operations was dropped to approximately HK\$1.0 million, as compared to approximately HK\$1.3 million for the same period last year. The occupancy rate as at 30th June 2004 was approximately 73%, which was higher than that of approximately 62% as at 30th June 2003, as a result of new tenancies made in June 2004.

### ***Investments Holding***

The Group's investment in ChipMOS Technologies (Bermuda) Limited ("ChipMOS"), which is listed in NASDAQ, recorded a mark-to-market unrealized loss of approximately HK\$75.6 million as compared to an unrealized loss of approximately HK\$40.9 million for the same period last year. No realization of the investment in ChipMOS has been made for the period under review.

The quoted market values of ChipMOS as at 30th June 2004 and 17th September 2004 was approximately US\$7.0 and approximately US\$5.9 respectively.

### **Liquidity and Financial Resources**

There was a net increase in the cash and cash equivalents of approximately HK\$16.6 million for the period under review, in which approximately HK\$17.7 million was net cash inflow from operating activities. The cash and cash equivalents held by the Group as at 30th June 2004 was approximately HK\$86.8 million as compared to approximately HK\$70.3 million as at 31st December 2003.

### **Capital Structure**

No additional share capital has been raised during the period under review. The net loss attributable to shareholders of approximately HK\$66.7 million was transferred to reserves. As at 30th June 2004, the shareholders funds of the Group amounted to approximately HK\$279.0 million.

### **Gearing Ratio**

The gearing ratio of the Group, as defined as total liabilities (excluding capital, reserves and minority interest) expressed as percentage of total assets, was approximately 23.3% (31st December 2003: 19.7%).

For the period under review, no additional financing from banks was made and net repayment of bank loans was approximately HK\$2.1 million.

### **Foreign Currency Exposure**

An exchange gain of approximately HK\$0.4 million was recognized in the income statement for the period under review. In addition, an exchange adjustment of approximately HK\$1.0 million, due to translation of accounts of overseas subsidiaries, was credited to exchange reserves.

### **Investments and Capital Assets**

For the six months ended 30th June 2004, the Group invested approximately HK\$0.1 million in capital expenditure.

### **Charge on Assets**

The Group's investment property in Hong Kong was mortgaged to a bank to secure a ten-year term loan with outstanding balance of approximately HK\$32.6 million as at 30th June 2004. Rental income and rental deposits of mortgaged investment property are also assigned to the bank.

### **Human Resources**

There was no great change in the size of workforce for the period under review. As at 30th June 2004, the number of staff of the Group was approximately 70.

### **Contingent Liabilities**

The Group did not have any material contingent liabilities as at 30th June 2004.

### **Future Plans and Prospects**

Our Group will continue to focus on its main business of integrated circuit design and distribution. With industry forecasts generally predicts a double-digit growth in the coming year, the management can anticipate a positive outlook on its main business.

**CONDENSED CONSOLIDATED INCOME STATEMENT***For the six months ended 30th June 2004*

		<b>Unaudited six months ended 30th June</b>	
	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
Turnover	2,4	<b>76,703</b>	48,195
Cost of sales		<b>(49,545)</b>	(32,342)
Gross profit		<b>27,158</b>	15,853
Other revenues	2,3	<b>650</b>	416
Distribution costs		<b>(1,958)</b>	(1,457)
General and administrative expenses		<b>(9,560)</b>	(9,018)
Other operating expenses	5	<b>(75,244)</b>	(38,877)
Loss from operations	6	<b>(58,954)</b>	(33,083)
Finance costs		<b>(551)</b>	(900)
Loss before taxation		<b>(59,505)</b>	(33,983)
Taxation	7	<b>(1,993)</b>	(280)
Loss before minority interests		<b>(61,498)</b>	(34,263)
Minority interests		<b>(5,181)</b>	(2,224)
Net loss attributable to shareholders		<b>(66,679)</b>	(36,487)
Basic loss per share	8	<b>(19.8 cents)</b>	(10.8 cents)
Diluted loss per share	8	<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30th June 2004*

		<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets			
Investment property		<b>52,000</b>	52,000
Other fixed assets	9	<b>8,303</b>	10,172
Intangible assets	9	<b>1,461</b>	2,643
Goodwill	10	<b>3,807</b>	3,854
Long-term deposits		<b>932</b>	681
		<b>66,503</b>	69,350
Current assets			
Inventories		<b>16,930</b>	12,551
Accounts receivable	11	<b>17,069</b>	14,439
Prepayments, deposits and others		<b>2,589</b>	2,769
Amounts due from related companies		<b>208</b>	193
Other investments	12	<b>226,896</b>	302,240
Restricted cash deposits		<b>1,993</b>	1,730
Pledged deposits		<b>—</b>	781
Cash and cash equivalents		<b>86,814</b>	70,260
		<b>352,499</b>	404,963
<b>Total assets</b>		<b>419,002</b>	474,313
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Share capital	16	<b>33,659</b>	33,659
Reserves	17	<b>245,351</b>	311,007
		<b>279,010</b>	344,666
Minority interests		<b>42,264</b>	36,179

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Continued)**As at 30th June 2004*

		<b>Unaudited</b>	Audited
		<b>30th June</b>	31st December
		<b>2004</b>	2003
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
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Non-current liability			
Long-term bank loans	13	<b>28,350</b>	30,450
Deferred taxation	18	<b>1,200</b>	1,110
		<hr/>	<hr/>
		<b>29,550</b>	31,560
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Current liabilities			
Accounts payable and accruals	15	<b>40,783</b>	25,171
Current portion of long-term bank loans	13	<b>4,200</b>	4,200
Short-term bank loans	14	<b>19,500</b>	19,500
Amounts due to related companies		<b>1,154</b>	11,396
Tax payable		<b>2,541</b>	1,641
		<hr/>	<hr/>
		<b>68,178</b>	61,908
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Total equity and liabilities		<b>419,002</b>	474,313
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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
As previously reported, total shareholders' funds at 1st January	<b>344,666</b>	132,781
Effect of adopting SSAP 12 — provision for deferred tax liabilities	—	(850)
As restated, total shareholders' funds at 1st January	<b>344,666</b>	131,931
Exchange adjustment on translation of the accounts of overseas subsidiaries	<b>1,023</b>	(423)
Loss for the period	<b>(66,679)</b>	(36,487)
Total shareholders' funds at 30th June	<b>279,010</b>	95,021



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th June 2004*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net cash inflow from operating activities	<b>17,653</b>	11,627
Net cash from investing activities	<b>80</b>	22,099
Net cash outflow from financing activities	<b>(2,651)</b>	(4,483)
Increase in cash and cash equivalents	<b>15,082</b>	29,243
Cash and cash equivalents at 1st January	<b>70,260</b>	33,815
Effect of foreign exchange rate changes	<b>1,472</b>	(570)
Cash and cash equivalents at 30th June	<b>86,814</b>	62,488

## NOTES TO CONDENSED ACCOUNTS

### 1. Basis of presentation and principal accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed interim accounts should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

## 2. Segment information

The Group is primarily engaged in (i) the design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties, (ii) investment property holding and (iii) investments holding.

	Unaudited six months ended 30th June											
	2004					2003						
	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties	Investment property holding	Investments holding	Unallocated amounts	Elimination	Total	Design and trading of integrated circuits, provision of agency services and distribution of semi-conductor parts of third parties	Investment property holding	Investments holding	Unallocated amounts	Elimination	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
<b>Turnover</b>												
External	74,798	1,905	—	—	—	76,703	45,899	2,296	—	—	—	48,195
Inter-segments	—	—	—	—	—	—	—	—	—	—	—	—
Total turnover	74,798	1,905	—	—	—	76,703	45,899	2,296	—	—	—	48,195
Cost of sales	(49,545)	—	—	—	—	(49,545)	(32,342)	—	—	—	—	(32,342)
Gross profit	25,253	1,905	—	—	—	27,158	13,557	2,296	—	—	—	15,853
<b>Other revenues</b>												
External	649	—	1	—	—	650	356	10	50	—	—	416
Inter-segments	—	—	800	—	(800)	—	—	—	5,931	—	(5,931)	—
	649	—	801	—	(800)	650	356	10	5,981	—	(5,931)	416
<b>Segment expenses</b>												
Distribution costs	(1,958)	—	—	—	—	(1,958)	(1,457)	—	—	—	—	(1,457)
General and administrative expenses	(8,184)	(931)	(925)	—	480	(9,560)	(12,097)	(1,051)	(1,466)	—	5,596	(9,018)
Other operating (expenses)/ income	375	—	(75,573)	(46)	—	(75,244)	1,486	—	(40,763)	400	—	(38,877)
(Loss)/profit from operations	16,135	974	(75,697)	(46)	(320)	(58,954)	1,845	1,255	(36,248)	400	(335)	(33,083)
Finance cost	—	—	—	—	—	(551)	—	—	—	—	—	(900)
Loss before tax	—	—	—	—	—	(59,505)	—	—	—	—	—	(33,983)
Taxation	—	—	—	—	—	(1,993)	—	—	—	—	—	(280)
Loss before minority interests	—	—	—	—	—	(61,498)	—	—	—	—	—	(34,263)
Minority interests	—	—	—	—	—	(5,181)	—	—	—	—	—	(2,224)
Net loss attributable to shareholders	—	—	—	—	—	(66,679)	—	—	—	—	—	(36,487)
Total segment assets	128,127	54,819	228,073	7,983	—	419,002	112,215	58,406	42,649	395	(937)	212,728
Total segment liabilities	41,894	1,601	1,073	53,160	—	97,728	26,718	2,470	1,429	58,424	—	89,041
Capital expenditures for segment assets	100	—	—	—	—	100	1,479	—	—	—	—	1,479
Depreciation and amortisation	3,372	—	5	—	—	3,377	3,638	—	5	—	—	3,643
(Write back)/provision for inventory obsolescence	(1,834)	—	—	—	—	(1,834)	1,249	—	—	—	—	1,249
(Write back)/provision for doubtful debts	(376)	—	—	—	—	(376)	133	—	—	—	—	133

## 2. Segment information *(Continued)*

Analysis of turnover and contribution to loss from operations by geographical location is as follows:

	<b>Turnover Unaudited Six months ended 30th June</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Hong Kong	<b>1,905</b>	2,296
Taiwan	<b>70,904</b>	40,872
The People's Republic of China (the "PRC")	<b>3,894</b>	5,027
	<b>76,703</b>	48,195
	<b>Contribution to loss from operations Unaudited Six months ended 30th June</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Hong Kong	<b>1,905</b>	2,296
Taiwan	<b>22,792</b>	10,691
The PRC	<b>2,461</b>	2,866
Gross profit	<b>27,158</b>	15,853
Other revenue	<b>650</b>	416
Expenses, net	<b>(86,762)</b>	(49,352)
	<b>(58,954)</b>	(33,083)

### 3. Other revenues

Analysis of other revenues is as follows:

	<b>Unaudited Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest income	<b>180</b>	293
Exchange gain, net	<b>395</b>	45
Others	<b>75</b>	78
	<b>650</b>	416

### 4. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Group's significant transactions with related companies in the current period were set out below:

- (a) Rental income of approximately HK\$162,000 and HK\$591,000 (2003: HK\$162,000 and HK\$591,000) were received from Fong Wing Shing Construction Company Limited and PCL Holdings Limited respectively. Rental was charged under normal commercial terms based on the floor area occupied. The directors of the Company, Mr. Yip Chi Hung and Mr. Pang Hong, are in a position to exercise significant influence over these companies.
- (b) Manufacturing service fees of approximately HK\$1,044,000 (2003: Nil) were paid to Mosel Vitelic Inc. ("MVI") in respect of purchase orders placed before the financial year ended 31st December 2003. MVI is an indirect substantial shareholder of the Company.

#### 4. Related party transactions *(Continued)*

##### (c) Joint Banking Facilities

As at 30th June 2004, the Group had HK\$100,000,000 (2003: HK\$100,000,000) banking facilities jointly held with a related company ("Joint Banking Facilities"). The Joint Banking Facilities were secured by a first mortgage in favour of the bank over certain properties held by related companies, corporate guarantees from related companies and the Company. The company's corporate guarantee is limited to any amount drawn by a subsidiary of the Company, Harvest Century Enterprises Limited.

The Joint Banking Facilities are available for usage by the Group and to the extent of any unused portion by the Group, by the related company. As at 30th June 2004, HK\$19,500,000 (2003: HK\$19,500,000) were drawn by the subsidiary company.

#### 5. Other operating expenses

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unrealised loss arising from mark-to-market valuation of other investments	<b>(75,574)</b>	(40,946)
Write-back of provision for doubtful debts	<b>376</b>	58
Negative goodwill recognised as income	<b>400</b>	400
Goodwill amortization charge	<b>(446)</b>	—
Gain on sale of other investments	—	184
Gain on disposal of product manufacturing rights	—	1,427
	<b>(75,244)</b>	(38,877)

## 6. Loss from operations

Loss from operations is arrived at after charging/(crediting):

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Depreciation of fixed assets	<b>2,170</b>	1,943
Amortisation of intangible assets	<b>1,207</b>	1,700
(Write-back) provision for inventory obsolescence	<b>(1,834)</b>	1,249
(Write-back) provision for doubtful debts	<b>(376)</b>	133
Research and development costs	<b>6,001</b>	4,408
Staff costs	<b>6,911</b>	5,120

## 7. Taxation

The Company is exempt from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Overseas taxation has been calculated on the estimated assessable profit for the period at the rates prevailing in the countries in which the Group operates.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Hong Kong profits tax		
— current period	—	4
— under provision in previous year	<b>15</b>	—
Overseas taxation		
— current period	<b>1,939</b>	106
— over provision in previous year	<b>(51)</b>	—
Deferred taxation		
— relating to taxable temporary differences	<b>90</b>	90
— resulting from an increase in tax rate	—	80
	<b>1,993</b>	280

## 7. Taxation (Continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the Hong Kong taxation rate as follows:

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss before taxation	<b>(59,505)</b>	(33,983)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>(10,413)</b>	(5,947)
Effect of different taxation rates in other countries	<b>1,053</b>	(1,159)
Utilisation of previously unrecognised tax losses	—	(2,098)
Effect of non-tax deductible unrealised loss arising from mark-to-market valuation of other investments, net	<b>13,147</b>	7,166
Effect of research allowance for tax purpose	<b>(2,456)</b>	—
Effect of depreciation allowance for tax purpose	<b>(93)</b>	(93)
PRC withholding tax	<b>12</b>	106
Effect of deferred tax relating to taxable temporary differences on investment property	<b>90</b>	90
Deferred tax on tax losses of subsidiaries not recognised	<b>689</b>	2,135
Increase in opening net deferred tax liability resulting from an increase in tax rate	—	80
Over provision in previous year, net	<b>(36)</b>	—
Taxation charge	<b>1,993</b>	280

## 8. Loss per share

The calculation of basic loss per share for the six months ended 30th June 2004 was based on the consolidated net loss attributable to shareholders of approximately HK\$66,679,000 (2003: HK\$36,487,000) and the weighted average number of 336,587,142 (2003: 336,587,142) shares in issue during the period.

Diluted earnings per share for the six months ended 30th June 2004 was not presented as there was no dilution effect on the earnings per share.



**9. Capital expenditure**

	<b>Total other fixed assets</b> <i>HK\$'000</i>	<b>Total intangible assets</b> <i>HK\$'000</i>
Opening net book amount as at 1st January 2004	10,172	2,643
Additions	100	—
Disposals	—	—
Depreciation/amortisation charge	(2,170)	(1,207)
Effect of foreign exchange rate changes	201	25
Closing net book amount as at 30th June 2004	8,303	1,461

**10. Goodwill**

	<b>Goodwill</b> <i>HK\$'000</i>	<b>Negative goodwill</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Net book amount			
At 1st January 2004	4,391	(537)	3,854
Negative goodwill amortisation for the year	—	400	400
Goodwill amortisation charge for the year	(447)	—	(447)
At 30th June 2004	3,944	(137)	3,807

**11. Accounts receivable**

	<b>Unaudited 30th June 2004</b> <i>HK\$'000</i>	Audited 31st December 2003 <i>HK\$'000</i>
Accounts receivable	<b>18,059</b>	15,757
Less: Provision for doubtful debts	<b>(990)</b>	(1,318)
	<b>17,069</b>	14,439

**11. Accounts receivable** *(Continued)*

Aging analysis of accounts receivable after provision for doubtful debts was as follows:

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
0 — 90 days	<b>17,069</b>	14,439
91 — 180 days	—	—
181 — 365 days	—	—
Over 365 days	—	—
	<b>17,069</b>	14,439

The Group normally grants credit period to customers ranging from 30 days to 90 days.

**12. Other investments**

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Listed equity securities in the U.S.	<b>217,860</b>	293,502
Listed equity securities in Hong Kong	<b>32</b>	35
Listed short-term investment funds in Taiwan	<b>9,004</b>	8,703
	<b>226,896</b>	302,240

Quoted market values for listed equity securities and short-term investment funds as at period/year end	<b>226,896</b>	302,240
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Particulars of the listed investments disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of investee	Place of incorporation	Percentage of share held		Class of shares held
		30th June 2004	31st December 2003	
ChipMOS Technologies (Bermuda) Limited ("ChipMOS")	Bermuda	5%	5%	Ordinary

At 30th June 2004, the quoted market value was approximately US\$7.0 (at 31st December 2003: US\$9.4) per share.

**13. Long-term bank loans**

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Secured loans	<b>32,550</b>	34,650
Less: Current portion of long-term bank loans	<b>(4,200)</b>	(4,200)
	<b>28,350</b>	30,450

At 30th June 2004, the Group's bank loans were repayable as follows:

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Within one year	<b>4,200</b>	4,200
In the second year	<b>4,200</b>	4,200
In the third to fifth year inclusive	<b>12,600</b>	12,600
After the fifth year	<b>11,550</b>	13,650
	<b>32,550</b>	34,650

**14. Short-term bank loans**

As at 30th June 2004, the short-term bank loans were secured, interest bearing at prevailing market rates and repayable within one year.

**15. Accounts payable and accruals**

Included in accounts payable and accruals were accounts payable, accrued charges and other payables as follows:

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <b>HK\$'000</b>	Audited 31st December 2003 <i>HK\$'000</i>
Accounts payable	<b>31,249</b>	16,887
Accrued charges and other payables	<b>9,534</b>	8,284
	<b>40,783</b>	25,171

Aging analysis of accounts payable was as follows:

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <b>HK\$'000</b>	Audited 31st December 2003 <i>HK\$'000</i>
0 — 90 days	<b>29,582</b>	16,148
91 — 180 days	<b>1,667</b>	—
181 — 365 days	—	—
Over 365 days	—	739
	<b>31,249</b>	16,887

**16. Share capital**

	<b>No. of shares</b>	<b>HK\$'000</b>
Authorised:		
At 1st January 2004 and 30th June 2004		
Ordinary shares of HK\$0.1 each	500,000,000	50,000
Issued and fully paid:		
At 1st January 2004 and 30th June 2004		
Ordinary shares of HK\$0.1 each	336,587,142	33,659

**17. Reserves**

	<b>Share premium</b>	<b>Investment property revaluation reserve</b>	<b>Exchange reserve</b>	<b>Retained earnings</b>	<b>Unaudited 30th June 2004 Total</b>	<b>Audited 31st December 2003 Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As previously reported, beginning of period/ year	101,263	—	(2,793)	212,537	311,007	99,122
— Effect of adopting SSAP 12	—	—	—	—	—	(850)
As restated, beginning of period/year	101,263	—	(2,793)	212,537	311,007	98,272
Deficit on revaluation of investment property	—	—	—	—	—	(3,694)
Exchange adjustment on translation of the accounts of overseas subsidiaries	—	—	1,023	—	1,023	(283)
(Loss)/profit for the period/year	—	—	—	(66,679)	(66,679)	216,712
End of period/year	101,263	—	(1,770)	145,858	245,351	311,007

**18. Deferred taxation**

Deferred tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities is as follows:

	<b>Unaudited Six months ended 30th June 2004 HK\$'000</b>	Audited Twelve months ended 31st December 2003 HK\$'000
At the beginning of the period/year	1,110	850
Deferred taxation charged to the profit and loss account		
— relating to taxable temporary differences	90	180
— resulting from an increase in tax rate	—	80
At the end of the period/year	1,200	1,110

Deferred tax assets are recognised for tax loss carry forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As at 30th June 2004, the Group has unused tax losses of approximately HK\$47 million (2003: HK\$62 million). No related deferred tax asset has been recognised (2003: HK\$Nil) as the Directors are of the opinion that it is not probable that there will be taxable profit or temporary differences against which the deferred tax asset can be utilized in the foreseeable future. Included in the unrecognised tax losses are losses of approximately HK\$14 million (2003: HK\$17 million) that will expire as follows:

<b>Tax losses (HK\$'million)</b>	<b>Expiry</b>
3	2004
—	2005
3	2006
2	2007
6	2008
14	

The above losses are subject to approval of the relevant tax authorities in respective jurisdictions.

## 19. Commitments

### *Operating lease commitments*

At 30th June 2004, the total future minimum lease payments payable under non-cancellable operating leases were as follows:

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Total future minimum lease payments payable:		
— Within one year	<b>1,364</b>	1,513
— In the second to fifth year inclusive	<b>671</b>	113
	<b>2,035</b>	1,626

The investment property of the Group is rented under operating leases. As at 30th June 2004, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
Total future minimum lease payments receivable:		
— Not later than 1 year	<b>2,862</b>	2,915
— Later than 1 year and not later than 5 years	<b>2,939</b>	1,230
	<b>5,801</b>	4,145

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2004.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2004, the interests of the directors in the securities of the Company's subsidiary, 新茂國際科技股份有限公司, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Name of director	Number of shares		Total	Percentage of equity held
	Personal interests	Corporate interests		
Seto Yee Woon, John	450,000	—	450,000	1.41%

Save as disclosed above, at no time during the year, the Directors and chief executive (including their spouse and children under 18 years of age) had any interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTEREST OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th June 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Name of Shareholder	Number of issued shares	Percentage holding
Texan Management Limited	145,610,000	43.3%
Vision2000 Venture Ltd.	106,043,142	31.5%



## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2004 with the directors.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period covered by this interim report except that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the bye-laws of the Company.

On behalf of the Board

**Seto Yee Woon, John**

*Chairman*

Hong Kong, 20th September 2004